

VENDOR INSTRUCTIONS

Dear Vendor,

In response to your recent inquiry, please be advised that there are a number of actions which need to be taken prior to being authorized by the Michigan Liquor Control Commission to market a new spirits product in the State of Michigan.

- 1). Licensing of a qualified vendor representative at a charge of \$50.00, and registration of all salespeople with the Manufacturers and Wholesalers Section of the Liquor Control Commission. A Vendor representative license application form is enclosed.
- 2). Submission of a signed contract with one of Michigan's Authorized Distribution Agents to provide warehousing and delivery services for your company's liquor products in this State. A list of the names and contact information for the current agents is enclosed.
- 3). Submission of an executed "Designation of Vendor's Authorized Agent" form (copy enclosed). This agent is appointed by the vendor to receive notification of purchase requests by the State of Michigan.
- 4). Submission of liquor quotations. As of January 18, 2002 the submission of liquor quotations must be done through the MLCC E-Quote Internet Application (instructions enclosed).

Also enclosed with this letter is a summary of Michigan's guidelines and procedures on the sale of spirits. If you have further questions, please contact the Financial Management Division at (517) 322-5882.

Sincerely,

MICHIGAN LIQUOR CONTROL COMMISSION

Steven D. Robinson, Deputy Director
Financial Management Division

MICHIGAN LIQUOR CONTROL COMMISSION

VENDOR OF SPIRITS REQUIREMENTS

General Overview:

Michigan operates as a “control” state for the sale of spirits. That is, the Michigan Liquor Control Commission (“Commission”) acts as the wholesaler for all spirits products. A “Vendor of Spirits” sells spirits to the Commission. The Commission then resells the spirits to both on and off-premise retail licensees. Spirits products are warehoused and delivered to retail licensees by Authorized Distribution Agents (“ADA”). ADAs are required to be certified by the Commission and are also required to have a contract with each Vendor of Spirits they represent to deliver their particular spirits products. Spirits products which are sold to consumers for off-premise consumption by licensed Specially Designated Distributors (“SDD”) are sold state-wide at uniform prices set by the Commission. The uniform price set by the Commission is determined by the cost of the spirits product to the Commission plus a 65% mark-up, plus a combination of specific taxes. All of these components of the system are further described below. The Commission pays a Vendor of Spirits a distribution fee of \$6.68 per case which is passed through to the ADAs, along with \$1.24 per case which is the Vendor contribution, so the ADAs realize at least \$7.92 per case.

Definitions: (MCL = Michigan Compiled Law, Rule = Administrative Rule)

MCL 436.1105, Sec. 105:

- (2) **“Alcoholic liquor”** means any spirituous, vinous, malt, or fermented liquor, liquids and compounds, whether or not medicated, proprietary, patented, and by whatever name called, containing $\frac{1}{2}$ of 1% or more alcohol by volume which are fit for beverage purposes. The Commission shall define and classify alcoholic liquor according to alcoholic content as belonging to one of the varieties defined in this chapter.
- (3) **“Authorized distribution agent (ADA)”** means a person approved by the Commission to do one or more of the following:
- To store spirits owned by a supplier of spirits or the Commission.
 - To deliver spirits sold by the Commission to retail licensees.
 - To perform any function needed to store spirits owned by a supplier of spirits or by the Commission or to deliver spirits sold by the Commission to retail licensees.

MCL 436.1109, Sec. 109:

- (4) **“Mixed spirit drink”** means a drink produced and packaged or sold by a mixed spirits drink manufacturer or an outstate seller of mixed spirits drink which contains 10% or less alcohol by volume consisting of distilled spirits mixed with nonalcoholic beverages or flavoring or coloring materials and which may also contain one or more of the following:
- Water
 - Fruit juices
 - Fruit adjuncts
 - Sugar
 - Carbon dioxide
 - Preservatives
- ***Please note that mixed spirits drinks are distributed through the private wholesale network and not through the Commission’s spirits distribution system.**

Definitions Continued:

MCL 436.1111, Sec. 111:

(13) **“Spirits”** means any beverage which contains alcohol obtained by distillation, mixed with potable water or other substances, or both, in solution, and includes wine containing an alcoholic content of more than 21% by volume, except sacramental wine and mixed spirit drink.

MCL 436.1113, Sec. 113 & Rule 436.1001(r):

(4) **“Vendor representative”** means a person who is licensed by the Commission and who is authorized by the manufacturer of beer or wine, an outstate seller of beer or wine, or a Vendor of Spirits to represent the respective employer or principal in transactions with the Commission.

Vendor of Spirits Requirements: New Vendors of Spirits must submit the following:

- 1). Completed “Designation of Vendor’s Authorized Agent” form (LC-133). The form is also on the Internet MLCC web site. This designates the person in the Vendor of Spirits’ company who will receive the daily Authorization for Purchasing Report from the Commission.
- 2). Contract with an Authorized Distribution Agent (see Authorized Distribution Agent section)
- 3). Vendor Representative appointment. Each Vendor of Spirits must appoint one individual to be their Vendor Representative and act as a liaison with the Commission. Only one Vendor Representative per Vendor of Spirits is allowed. A person representing more than one Vendor of Spirits must have a separate Vendor Representative license for each company.

“Application for Vendor Representative License” (form LC/MW 843c) should be completed and submitted along with a \$50.00 license fee (the form is on the Internet MLCC web site). The person must be at least 18 years of age and may not have any interest in any retail license. The person does not have to be a Michigan resident.

Fees:

There is no application fee or any annual license or permit fee for a Vendor of Spirits. The only fee associated with a Vendor of Spirits is the \$50.00 fee for the Vendor Representative license for the individual representing them with the Commission.

How To File Quotations for New Products:

Assuming that of all the Vendor of Spirits Requirements are fulfilled, new spirits brands may be introduced by filing them on the MLCC Internet Application E-Quote (instructions attached).

If filing for a new brand, submit an addendum to ADA contract adding the new product to the existing ADA contract or a new ADA contract if using a different ADA for the new product.

New products must receive Commission approval by the deadline set by the Commission to be included in the next available monthly supplemental list or quarterly price book. The Commission holds weekly meetings, where new products are approved. There is no charge for product listing.

Value Added Products:

Value Added Products are defined as any combination package containing a spirit product and any other item, including other spirits products. The Commission must approve all Value Added Products. Submit a web site address where an image of the finished Value Added Product can be viewed, or send an image attached to an e-mail addressed to mlcceequote@michigan.gov. If approved by the Commission, the Value Added Product will receive a distinct product code and will be listed along with all other spirits products. Value Added Products may not include: beer or wine products, containers requiring returnable deposits, tobacco products or any other item deemed inappropriate by the Commission. Value Added Products cannot cost less than regular items. If so, they will be rejected.

If the added product is spirits, only 50 ml size bottles may be sold as part of that Value Added Product.

Standard bottles per case:

The following case sizes are approved for sale in Michigan:

<u>Size</u>	<u>Bottles Per Case</u>	<u>Size</u>	<u>Bottles Per Case</u>
1750ml	6	200ml	48
1000ml	12	100ml	48
750ml	12	50ml	120
375ml	24		

In addition to the aforementioned packages, the Commission may approve other bottles per case as deemed appropriate. Approved exceptions to the standard case sizes include: case cost exceeding \$200.00, case weight exceeding 65 pounds, quoted bottles per case is national case size, product has a limited shelf life and value-added products. The Commission will consider other reasons (it must be explained) on an individual basis.

Authorized Distribution Agent (ADA):

An ADA is certified by the Commission to warehouse and deliver spirits to retail licensees. An ADA must have a written contract with each Vendor of Spirits they represent.

The contract must specify the following:

- a. The contract must designate each brand of spirits the ADA is authorized to warehouse and deliver.
- b. The contract must specify the ADA's authorized geographical delivery area. The entire state must be covered in some manner, either through one ADA or with multiple ADAs. There can be no overlapping of territories if multiple ADAs are used.
- c. The contract must indicate the responsibilities of both parties.

- d. The contract must specify the amount per case to be paid to the ADA by the Vendor of Spirits. This warehouse/delivery fee must be a minimum of \$7.92 per case (as of October 30, 2005, and is subject to change every January). Both the ADA and the Vendor of Spirits must sign the contract.

ADAs are required to make at least weekly deliveries to any retail licensee making a one case or more minimum order. ADAs may not charge any split case fees nor may they charge any delivery fee except for emergency orders placed by retail licensees in addition to their weekly delivery. In such case, ADAs may charge up to \$20.00 delivery fee. The ADA is responsible for collecting payment from the retail licensees on behalf of the Commission and is responsible for submitting various sales documents to the Commission. An ADA may not have any interest, directly or indirectly in any Vendor of Spirits or in any retail licensee. A Vendor of Spirits must make each of its products available state-wide to all retail licensees. Enclosed is a list of currently certified ADAs. Any additional company desiring to become an ADA must first become certified by the Commission before the Vendor of Spirits may utilize them as an ADA. Additional information for ADA certification is available from the Commission.

Uniform Minimum Price, Taxes & Mark-up:

All off-premise retail licensees must sell spirits to consumers at the uniform price set by the Commission. This uniform price is determined as follows: Vendor of Spirits files price quotations with the Commission. The Commission takes the per case quoted price as submitted by the Vendor of Spirits, calculates price per bottle (quotation price per case divided by bottles per case), then adds a 65% mark-up to it. A series of specific taxes (4% specific tax for school aid fund, a 4% specific tax for the general fund, a 4% specific tax for convention facilities & tourism and a 1.85% specific tax for liquor purchase revolving fund), are then calculated on the price after the mark-up. The 1.85% tax is added only on sales to off-premise licensees. In addition, there is a 6% Michigan sales tax collected separately by the retail licensee. All retail licensees receive a 17% discount on purchases from the Commission which is calculated before any specific tax but after the mark-up has been added to the Commission's cost. On-premise retailers may sell spirits at any price above their cost. Vendors may verify their prices by using the Commission's Shelf Price Calculator, found at:

<http://www.cis.state.mi.us/mlcc/excel/shelfpri.xls>

Payment to Vendor of Spirits:

In addition to paying the Vendor of Spirits the quoted price for the purchase of spirits, the Commission must pay the Vendor of Spirits an amount of not less than \$4.50 and not more than \$7.50 for each case of spirits purchased as an offset to the costs being incurred by the Vendor of Spirits in contracting with an ADA for warehousing and delivery of spirits to retailers, pursuant to MCL 436.1205, Sec. 205(13). **This per case offset is currently \$6.86 per case** (as of January 1, 2006) and may be increased each January to reflect industry increases in the ADA's cost of warehousing and delivery. The Vendor adds at least \$1.24 per case to the \$6.86 so the ADAs realize at least \$8.10 per case.

Quarterly Price Books (New Products & Price Changes):

The Commission publishes an updated price book of all spirit products available to retail licensees every three months. These quarterly price books are mailed directly to the retail licensees. The quarterly price change is the only time existing products' prices may be changed.

This can be done by filing the changes on the MLCC internet application, E-Quote (instructions enclosed). New products and packages may also be added to the Commission price book in these quarterly price books through E-Quote.

Monthly Price Book Update (New Products & Packages Only):

In addition to the quarterly price book, the Commission produces and distributes a monthly supplemental price schedule for new items or package changes. Prices for existing packages may not be changed in the monthly supplemental price report. All electronic liquor quotations for new products must be approved by the deadline schedule to be eligible for listing on that month's effective date. The monthly supplemental price schedules are distributed to retail licensees by the ADAs.

Salesperson License:

A Vendor of Spirits or other company representing a Vendor of Spirits shall not employ a person to sell, deliver, promote, or otherwise assist in the sale of alcoholic liquor unless the person is licensed by the Commission as a Vendor Representative or Salesman. As noted earlier, the Commission will recognize only one (1) Vendor Representative per Vendor of Spirits. Any other persons assisting in the sale or promotion of alcoholic liquor must obtain a Salesperson license from the Commission. **"Application for Salesperson License"** (Form LC/MW – 843 Rev. 3/99) must be completed and submitted to the Commission's Manufacturers & Wholesalers Section on behalf of the salesperson. This form is on the MLCC Internet web site and may also be obtained from the Commission's Manufacturers & Wholesalers Section at (517-322-1414). A person must be 18 years of age or older and can have no interest in any retail license. The fee for a Salesperson license is \$35.00 for a three year licensing period. No prorating of the licensee fee is allowed.

Broker's License:

Vendors of Spirits often employ companies to act as brokers or promotional agents on their behalf. The Commission requires such companies to obtain a Broker License authorizing the company to promote the spirits products on behalf of the Vendor of Spirits. **"Application for Broker License"** form LC/MW-843C Rev.01/02 must be completed and submitted to the Commission's Manufactures & Wholesalers Section. The form may be obtained from the Commission's Manufactures & Wholesalers Section (517-322-1414), or on the web site. A company representing more than one Vendor of Spirits must obtain a separate Broker License for each Vendor of Spirits they represent. A Broker Licensee may not have any interest in any retail licensee. The fee for a Broker's License is \$35.00 for a three year licensing period.

Interest in Other Licensees:

A Vendor of Spirits is prohibited from having any direct or indirect interest in any ADA or in any retail licensee. This prohibition includes financial interest, ownership interest, interlocking board of directors and leasehold interest.

Aid and Assistance:

A Vendor of Spirits is prohibited from aiding and assisting any licensee by "gift, loan of money or property of any description, or other valuable items, or by the giving premiums or rebates." Vendors of Spirits as well as all alcoholic beverage suppliers or wholesalers are prohibited from giving anything of value to retail licensees and are prohibited from receiving anything of value from alcoholic beverage suppliers. A Vendor of Spirits is prohibited from offering retailers any type of inducement.

Advertising and Promotions:

Inside advertising signs must be unilluminated and no more than 3,500 square inches in dimension. Advertising which promotes anything other than or in addition to your alcoholic beverage product requires prior Commission approval. Advertising on anything having any secondary value, use or purpose other than advertising, requires prior Commission approval. Point of sales material that only advertises product and price does not require Commission approval. If the point of sale material advertises anything else, it requires prior Commission approval.

A Vendor of Spirits is prohibited from paying any retail licensee for advertising or display space. Cooperative advertising between a Vendor of Spirit and retailers or between a Vendor of Spirits and suppliers is prohibited.

Direct all advertising/promotion approval questions/requests to the Commission's Manufacturers & Wholesalers Section at (517-322-1414).

Beer, Wine & Mixed Spirit Drink Distribution:

Unlike spirits, beer, wine and mixed spirit drinks are distributed in Michigan through a private wholesale network. The Commission licenses suppliers (Brewer, Micro Brewer, Wine Maker, Small Wine Maker, Manufacturer of Mixed Spirit Drink, Outstate Seller of Wine, Outstate Seller of Beer, Outstate Seller of Mixed Spirit Drink) to ship and sell their products to licensed Michigan Wholesales. The Wholesaler is licensed to ship and sell to licensed Michigan retailers. Only the licensed Michigan retailer is authorized to sell the Michigan consumers. Details on any of these licenses may be obtained from the Commission's Manufacturers & Wholesalers Section.

How to Contact Us:

Michigan Liquor Control Commission
7150 Harris Drive
P.O. Box 30005
Lansing, MI 48909
<http://www.michigan.gov/dleg>

Products and Pricing Unit

(517)322-5882
(517)322-1771 (fax)

Manufacturers & Wholesalers Section

(517)322-1414